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AN ANALYSIS OF THE CURRENT SERVICES BUDGET CONTAINED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1987

Submitted to the

SENATE AND HOUSE COMMITEES ON THE BUDGET

Prepared by the Staff of the

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

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AN ANALYSIS OF THE CURRENT SERVICES BUDGET CONTAINED IN THE PRESIDENT'S BUDGET FOR FISCAL YEAR 1987 [1]

The Congressional Budget and Impoundment Control Act of 1974, as amended, requires that the President submit a current services budget to Congress. This budget, published as Special Analysis A, is intended to present the level of outlays and budget authority "for the following fiscal year if programs and activities of the United States Government were carried on during that year at the same level as the current fiscal year without a change in policy." Such benchmark estimates and the corresponding current services receipts estimates are to be accompanied by "the economic and program assumptions on which those budget outlays and budget authority are based, including inflation, real economic growth, and unemployment rates, program caseloads, and pay increases." The Budget Act also requires that the Joint Economic Committee review the estimated budget outlays and proposed budget authority and submit an evaluation to the Committees on the Budget of both Houses.

The current services budget should play a vital role in expediting efforts of congressional committees and the Administration to develop and evaluate timely and credible policy alternatives. Unfortunately this Administration has not followed the intent of the Budget Act. It has departed from its own guidelines and, as a result, it has introduced into the current services budget a number of distortions, amounting to billions of dollars. Thus the current services budget has been transformed into a parody of what Congress intended; rather than helping to clarify budget issues, it has been used to confuse the debates in Congress and among the public. The main problems have been in the area of defense—spending increases have been converted into alleged spending reductions by the utilization of artificially high baselines. The original goals of the current services budget remain valid. But in practice the estimates in some areas have become so distorted that the entire issue needs to be reexamined. The Joint Economic Committee has asked the General Accounting Office to conduct a thorough investigation and recommend appropriate changes in current law to restore the current services budget to its intended purpose.

The Administration correctly defines current services estimates as those that "reflect the anticipated costs of continuing ongoing Federal programs and activities at present levels without policy changes." [2] The Office of Management and Budget [OMB] has pre-

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[1] All years referred to are fiscal years.

[2] Office of Management and Budget, *Special Analyses, Budget of the United States Government, Fiscal Year 1987*, p. I-2.

pared Circular A-11 to provide guidance to the individual agencies regarding methods to use in calculating their estimates, which are subsequently submitted to OMB. Current services estimates are prepared for the budget year and the four subsequent years. An agency's appropriation or continuing resolution for the current year—the year prior to the budget year—is generally considered the "base year" for current services estimates. The estimates reflect the expected cost of continuing ongoing federal programs at base year levels in real terms (adjusted for inflation). Each agency is required to submit current services estimates to OMB after the agency's appropriation or continuing resolution for the "base year" is passed.

Final decisions on the content of the current services budget are made by the OMB Director. In some cases, such as interest on the national debt, Circular A-11 cannot readily be utilized by the agencies, and estimates based on the Administration's economic forecast can best be made by objective analysis at OMB. The assumptions used in such cases are spelled out in Special Analysis A, and the results are consistent with Congressional intent.

In other situations, however, the agencies have prepared current services estimates based on OMB's Circular A-11, but these estimates have subsequently been rejected by OMB with insufficient explanation and without informing Congress of the estimates prepared by the agencies. The most important case is the treatment of budget authority [BA] and outlays [O] for the Department of Defense-Military [DOD-M], where the current services estimates submitted by OMB to the Congress far exceed the estimates submitted by DOD to OMB.[3] As a result, the President's budget request involves apparently sizable reductions from the OMB baseline, but in fact it represents very large increases in comparison with the DOD baseline, which was based on OMB's Circular A-11.

The differences between the two baselines for DOD-M budget authority are shown in Table 1. The Administration's request rises from $311.6 billion in 1987 to $395.5 billion in 1991. These figures are presented in Special Analysis A as reductions from the OMB current services baseline ranging from $3.1 billion in 1987 to $17.1 billion in 1991, for a total reduction of $45.4 billion over the five-year period. However, a very different picture emerges if the President's budget is compared with the DOD baseline, which was submitted by DOD to the General Accounting Office [GAO] and has not previously been published. For 1987, the budget represents a $18.8 billion increase, not a $3.1 billion increase, a net difference of $21.9 billion. By 1991, the gap is much wider—an increase of $60.0 billion, in comparison with a reduction of $17.1 billion, a net difference of $77.1 billion. For the period as a whole, as shown in Table 1, the budget represents an increase of $195.1 billion in comparison with the DOD baseline, as opposed to a reduction of $45.4 billion relative to the OMB current services baseline, yielding a difference of $240.5 billion.

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[3] Department of Defense-Military accounts for approximately 97 percent of the National Defense budget function.

TABLE 1.—DEPARTMENT OF DEFENSE-MILITARY BUDGET AUTHORITY

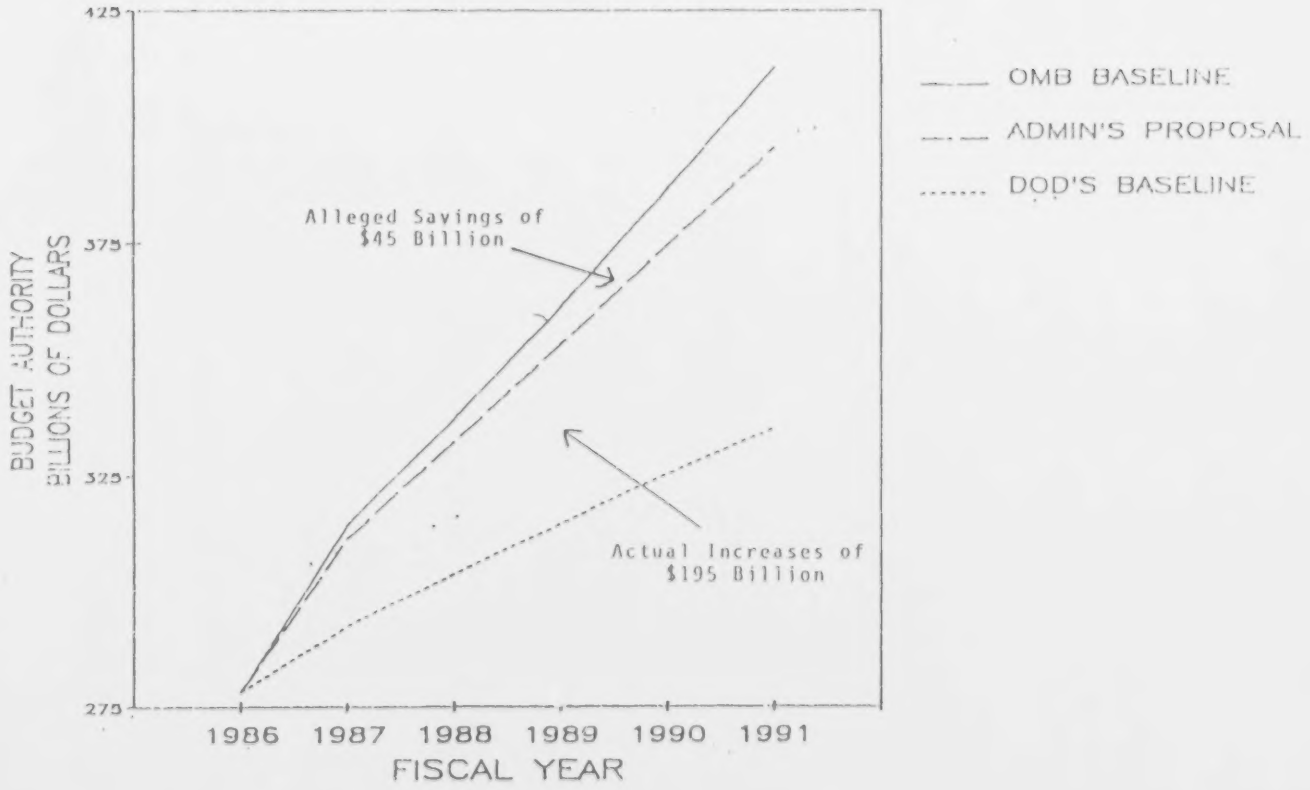
(In billions of dollars)

	Administration budget	OMB baseline	DOD baseline [1]	Administration budget less: OMB baseline	Administration budget less: DOD baseline	Difference between OMB and DOD baseline
Fiscal year						
1987	$311.6	$314.7	$292.8	$3.1	$18.8	$21.9
1988	332.4	337.5	303.9	5.1	28.5	33.6
1989	353.5	361.5	314.9	8.0	38.6	46.6
1990	374.7	386.8	325.5	12.1	49.2	61.3
1991	395.5	412.6	335.5	17.1	60.0	77.1
Total	1,767.7	1,813.1	1,572.6	45.4	194.1	240.5

[1] Includes the effects of sequestration.

Sources: Office of Management and Budget, Department of Defense.

THE $240 BILLION DISCREPANCY IN THE ADMINISTRATION'S DEFENSE BUDGET



OMB states that for 1987 and 1988 its current services estimates for DOD–M and other programs in the national defense function are the same as those of the 1986 Congressional Budget Resolution. For 1989 through 1991, the estimates "reflect the budget resolution policy of three percent annual real growth in budget authority." On the face, this approach appears reasonable, but there are four reasons why it is unsatisfactory:

(1) The baseline should incorporate the effects of the 1986 sequestration on defense budget authority. OMB fails to do this.

(2) The intent of Congress with regard to future spending levels at the time of the budget resolution last August has been superseded by the subsequent passage of appropriations bills.

(3) For 7 fiscal years, from 1977 through 1983, OMB's current services estimates for defense were based on the previous year's appropriation adjusted for inflation, with no real growth. This well-established practice was inexplicably abandoned in 1984.

(4) OMB's approach was considered but rejected by the Congressional Budget Office [CBO] in obtaining their baseline budget estimates, which (except for differences in the underlying economic forecast) are similar to the estimates prepared by DOD in accordance with OMB regulations.

In one area the current services estimates for defense, prepared by the Department of Defense, have been improved. Prior to this year, OMB allowed DOD to project inflation for major weapon systems at 1.3 percent times the anticipated increase in the GNP deflator. For example, if the GNP deflator were projected to rise by 10 percent per year, the cost of major weapon systems would be projected to increase by 13 percent annually. The GAO found that this led to excessive inflation estimates for weapon systems, and DOD has discontinued this practice.[4] Unfortunately, as discussed above, OMB disregarded these DOD estimates of the current services baseline.

The Balanced Budget and Emergency Deficit Control Act of 1985 officially revised the timetable for the current services budget. The Budget Act of 1974 required that the President submit this current services budget to Congress before November 11 of each year, with the evaluation by the Joint Economic Committee to be submitted to the Budget Committees before January 1. Compliance with these deadlines typically did not occur, because it would have reduced the usefulness of the evaluation, which would have been based on economic assumptions not necessarily adopted for the ensuing budget. Each year it was necessary to extend the deadlines on a one-year basis, so that the President submitted his current services analysis with his budget for the ensuing fiscal year, with subsequent evaluation by the Joint Economic Committee. This section of the Budget Act was modified in 1985, to make the law consistent with the present satisfactory practice.

In summary, the current services budget could and should be a valuable aid to the Congress in budget decisionmaking. In practice,

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[4] General Accounting Office, *Potential for Excess Funds in DOD*, September 3, 1985.

the intent of the Budget Act has not been carried out by the Office of Management and Budget. Since 1984 artificially high baselines have been used in an attempt to portray significant increases in the defense budget as reductions. This year OMB's defense baseline is far greater than that proposed by DOD in accordance with OMB's own guidelines. A major reappraisal and reform of the current services budget should be undertaken to achieve the original goals of the Congress.

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